

8 Tips for Building Credit

Credit is an invaluable tool for making purchases, applying for loans, buying a home or car, and more. Establishing credit starts with applying for and using credit, and of course, responsible spending.

Paying bills on-time and establishing a clean credit history demonstrate to lenders that you are a good loan candidate which will open the door to lower interest rates on loans and increase your buying power.

In this article, we'll discuss tips to build credit, how to start building credit, how to build your credit score, and the easiest ways to build credit.

What Is Credit & Why is it Important?

According to the credit reporting agency, Experian, "Credit is the ability to borrow money or access goods or services with the understanding that you'll pay later."

Credit transactions involve a borrower and a lender. Merchants, credit unions, banks, and service providers are all examples of lenders.

Credit is important because it's an integral part of doing business in the world. For example, a credit card lets us make in-person and online purchases, subscribe to services (from paying our phone and utility bills to purchasing movies on Netflix), and even buy a car.

Getting a car loan is also considered buying with credit, as the lender is extending credit to you to make the purchase. Credit is everywhere!

How to Build Credit Fast

The easiest way to build credit typically starts with opening a credit card account or taking out a loan. Establishing credit in this way and paying the monthly bill creates your credit history and credit score, which lenders, and even some employers, will look at to determine your eligibility based on your responsibility as a consumer.

Here are some tips for building and establishing credit:

1) Get a Secured Credit Card

A secured credit card requires a cash deposit as collateral in case the cardholder defaults on payments. The credit card issuer will send reports to the three major credit reporting agencies (Equifax®, Experian™, and TransUnion®), and in this way, your credit history and credit score are established. Defaulting on a secured credit card account is a very bad idea.

2) Obtain a Credit-Builder Loan or a Secured Loan

A credit-builder loan is a great tool for those who have less than optimal credit or no credit history at all.

Unlike a regular loan that you can apply for and then receive funds, a credit-builder loan provides funds as you make payments.

Once you apply, a share certificate will be established for you, and each time you make a payment, a portion of the loan balance will be available to you.

After a year of payments, the entire loan balance is yours to spend or keep as a savings fund.

During re-payment, your positive behavior will be reported to the nation's major credit bureaus, and successfully paying of your credit-builder loan will improve your credit score.

There may be other features and requirements when you acquire a credit-builder loan.

Additionally, a secured loan is another great way to build credit.

What is it?

A secured loan is one that is backed by collateral as security that the loan amount will be paid back to the lender. The debt is thus secured against the collateral. Examples of secured loans are a home mortgage and an auto loan. If the borrower defaults on the loan, the lender can take possession of the home or auto.

3) Find a Co-Signer

Applying for a credit card or loan with a co-signer means both parties will share the responsibility of the debt. Young adults getting their first credit card or buying their first car can benefit from having a parent as a co-signer, especially if the parent has good credit. The primary signer is responsible for making payments, and as long as payment is made on time, both parties will build favorable credit because the loan will appear on both the primary and co-signer's credit history. The co-signer should be fully aware that because the debt is in their name too, they are responsible for repaying the loan or debt balance, should the primary signer default.

4) Become an Authorized User

If you can't qualify for a credit card on your own, becoming an "Authorized User" on someone else's credit card account can help you build your credit score. When you become an authorized user, the card issuer will send the primary card holder a card with your name on it, and the account is added to your credit report. Because the primary account holder is the one responsible for paying the charges on the account, the authorized user's credit score benefits from the card-holder's on-time payments.

5) Practice Good Credit Habits

- Spend within your means (i.e. avoid maxing out credit accounts).
- Make on-time payments.
- Don't miss a payment. If you can pay the full balance on a monthly credit card, be sure to pay the "minimum balance due."
- Know your credit score.
- Monitor your credit reports to identify errors or fraud.

6) Monitor Your Credit Scores

Your credit payment history is recorded in a report that is maintained by the three major credit bureaus: Equifax®, Experian™, and TransUnion®. You have a credit report on file at a credit bureau if you have ever applied for a credit card, a personal loan, insurance, or a job.

The most widely used credit scores are FICO® scores, which will fall between 350 (high risk) and 850 (low risk). Lenders look at your credit score when you apply for a loan and use the risk factor to determine if you are credit-worthy. People with a low risk credit score are more likely to be offered a lower interest rate on a loan.

Under federal law everyone is entitled to a free copy of their credit report annually from each

credit bureau, once every 12 months. The credit bureaus are offering free weekly online reports through April 2021. To request your credit report visit www.AnnualCreditReport.com.

Or you may contact each major credit bureau directly, to get your credit report:

[Equifax](http://www.Equifax.com): 800-685-1111 (option 3)

[Experian](http://www.Experian.com): 888-397-3742

[TransUnion](http://www.TransUnion.com): 800-916-8800 (option1)

If you find an error in your credit report you have a right to dispute the inaccuracy. It does not cost anything to dispute mistakes or outdated items on your credit report and you don't need to hire a credit repair company to do it for you. Contacting the credit bureau may resolve inaccuracies and your credit score could increase as a result.

7) Pay Student Loans On-Time

Student loan lenders report monthly payments to credit bureaus and whether it was paid on time. Making on-time student loan payments can help you build credit and improve your score. Some student loans can be refinanced or negotiated to a lower interest rate. Be sure to contact your lender to see if a lower rate or any debt-forgiveness is being offered.

8) Ask Your Landlord and Utility Companies to Report Payments

Because utility company payments aren't loan-related, utilities don't report payment history to the credit bureaus. Utility bills may only appear on a credit report when they're delinquent, which would have a negative impact on your credit score and could prevent you from being approved for future services.

Experian offers [Experian Boost](http://www.Experian.com/boost). Through this tool, you can have certain utility accounts, including your phone bill, included in your credit report to help increase your credit score. Boost is available only for your Experian credit report, which means that utility bills will continue to have no influence on your Equifax and TransUnion credit reports.